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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-08 SS-15 STR-07
OMB-01 CEA-01 CIAE-00 COME-00 FRB-01 INR-10
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----------056206 072259Z /21
O R 072130Z JUL 78
FM AMCONSUL BREMEN
TO SECSTATE NIACT IMMEDIATE 2665
INFO DEPT OF TREASURY IMMEDIATE
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
AMEMBASSY DUBLIN
AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME

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PARIS ALSO FOR USOECD; BRUSSELS ALSO FOR USEEC

E.O. 11652: N/A
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SUBJECT: EUROPEAN COUNCIL, JULY 6-7,1978: EUROPEAN MONETARY
SYSTEM

1. FOLLOWING IS TEXT OF GERMAN COUNCIL PRESIDENCY'S
CONCLUSIONS CONCERNING JULY 6-7 EUROPEAN COUNCIL'S DISCUSSIONS
ON A POSSIBLE SCHEME FOR CLOSER MONETARY COOPERATION LEADING
TO A ZONE OF MONETARY STABILITY IN EUROPE:

BEGIN TEXT:

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FOLLOWING THE DISCUSSION AT COPENHAGEN ON 7 APRIL THE
EUROPEAN COUNCIL HAS DISCUSSED THE ATTACHED SCHEME FOR THE
CREATION OF A CLOSER MONETARY CO-OPERATION (EUROPEAN MONETARY
SYSTEM) LEADING TO A ZONE OF MONETARY STABILITY IN EUROPE,
WHICH HAS BEEN INTRODUCED BY MEMBERS OF THE EUROPEAN COUNCIL.
THE EUROPEAN COUNCIL REGARDS SUCH A ZONE AS A HIGHLY
DESIRABLE OBJECTIVE. THE EUROPEAN COUNCIL ENVISAGES A

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DURABLE AND EFFECTIVE SCHEME. IT AGREED TO INSTRUCT THE FINANCE MINISTERS AT THEIR MEETING ON 24 JULY TO FORMULATE THE NECESSARY GUIDELINES FOR THE COMPETENT COMMUNITY BODIES TO ELABORATE BY 31 OCTOBER THE PROVISIONS NECESSARY FOR THE FUNCTIONING OF SUCH A SCHEME - IF NECESSARY BY AMENDMENT. THERE WILL BE CONCURRENT STUDIES OF THE ACTION NEEDED TO BE TAKEN TO STRENGTHEN THE ECONOMIES OF THE LESS PROSPEROUS MEMBER COUNTRIES IN THE CONTEXT OF SUCH A SCHEME; SUCH MEASURES WILL BE ESSENTIAL IF THE ZONE OF MONETARY STABILITY IS TO SUCCEED. DECISIONS CAN THEN BE TAKEN AND COMMITMENTS MADE AT THE EUROPEAN COUNCIL MEETING ON 4 AND 5 DECEMBER.

THE HEADS OF GOVERNMENT OF BELGIUM, DENMARK, THE FEDERAL REPUBLIC OF GERMANY, LUXEMBOURG AND THE NETHERLANDS STATE THAT THE "SNAKE" HAS NOT BEEN AND IS NOT UNDER DISCUSSION. THEY CONFIRM THAT IT WILL REMAIN FULLY INTACT.

ANNEX

1. IN TERMS OF EXCHANGE RATE MANAGEMENT THE EUROPEAN MONETARY SYSTEM (EMS) WILL BE AT LEAST AS STRICT AS THE "SNAKE". IN THE INITIAL STAGES OF ITS OPERATION AND FOR A LIMITED PERIOD OF TIME MEMBER COUNTRIES CURRENTLY NOT PARTICIPATING IN THE SNAKE MAY OPT FOR SOMEWHAT WIDER MARGINS AROUND CENTRAL RATES. IN PRINCIPLE, INTERVENTIONS WILL BE IN THE CURRENCIES OF PARTICIPATING COUNTRIES. CHANGES IN CENTRAL
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RATES WILL BE SUBJECT TO MUTUAL CONSENT. NON-MEMBER COUNTRIES WITH PARTICULARLY STRONG ECONOMIC AND FINANCIAL TIES WITH THE COMMUNITY MAY BECOME ASSOCIATE MEMBERS OF THE SYSTEM. THE EUROPEAN CURRENCY UNIT (ECU) (THE ECU HAS THE SAME DEFINITION AS THE EUROPEAN UNIT OF ACCOUNT.) WILL BE AT THE CENTRE OF THE SYSTEM; IN PARTICULAR, IT WILL BE USED AS A MEANS OF SETTLEMENT BETWEEN EEC MONETARY AUTHORITIES.

2. AN INITIAL SUPPLY OF ECU'S (FOR USE AMONG COMMUNITY CNETRAL BANKS) WILL BE CREATED AGAINST DEPOSIT OF US DOLLARS AND GOLD ON THE ONE HAND (E.G. 20 PER CENT OF THE STOCK CURRENTLY HELD BY MEMBER CENTRAL BANKS) AND MEMBER CURRENCIES ON THE OTHER HAND IN AN AMOUNT OF A COMPARABLE ORDER OF MAGNITUDE.

THE USE OF ECU'S CREATED AGAINST MEMBER CURRENCIES WILL BE SUBJECT TO CONDITIONS VARYING WITH THE AMOUNT AND THE MATURITY; DUE ACCOUNT WILL BE GIVEN TO THE NEED ROR SUB-STANTIAL SHORT-TERM FACILITIES (UP TO 1 YEAR).

3. PARTICIPATING COUNTRIES WILL CO-ORDINATE THEIR EXCHANGE RATE POLICIES VIS-A-VIS THIRD COUNTRIES. TO THIS END THEY

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WILL INTENSIFY THE CONSULTATIONS IN THE APPROPRIATE BODIES AND BETWEEN CENTRAL BANKS PARTICIPATING IN THE SCHEME. WAYS TO CO-ORDINATE DOLLAR INTERVENTIONS SHOULD BE SOUGHT WHICH AVOID SIMULTANEOUS REVERSE INTERVENTIONS. CENTRAL BANKS BUYING DOLLARS WILL DEPOSIT A FACTION (SAY 20 PER CENT) AND RECEIVE ECU'S IN RETURN; LIKEWISE, CENTRAL BANKS SELLING DOLLARS WILL RECEIVE A FACTION (SAY 20 PERCENT) AGAINST ECU'S.

4. NOT LATER THAN TWO YEARS AFTER THE START OF THE SCHEME, THE EXISTING ARRANGEMENTS AND INSTITUTIONS WILL BE CONSOLIDATED IN A EUROPEAN MONETARY FUND. (THE EMF WILL TAKE THE PLACE OF THE EMCF.)

5. A SYSTEM OF CLOSER MONETARY CO-OPERATION WILL ONLY BE
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SUCCESSFUL IF PARTICIPATING COUNTRIES PURSUE POLICIES CONDICIVE TO GREATER STABILITY AT HOME AND ABROAD; THIS APPLIES TO DEFICIT AND SURPLUS COUNTRIES ALIKE. END TEXT
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